Overview of
California Energy Resources Scheduling Division

March 9, 2018

Background

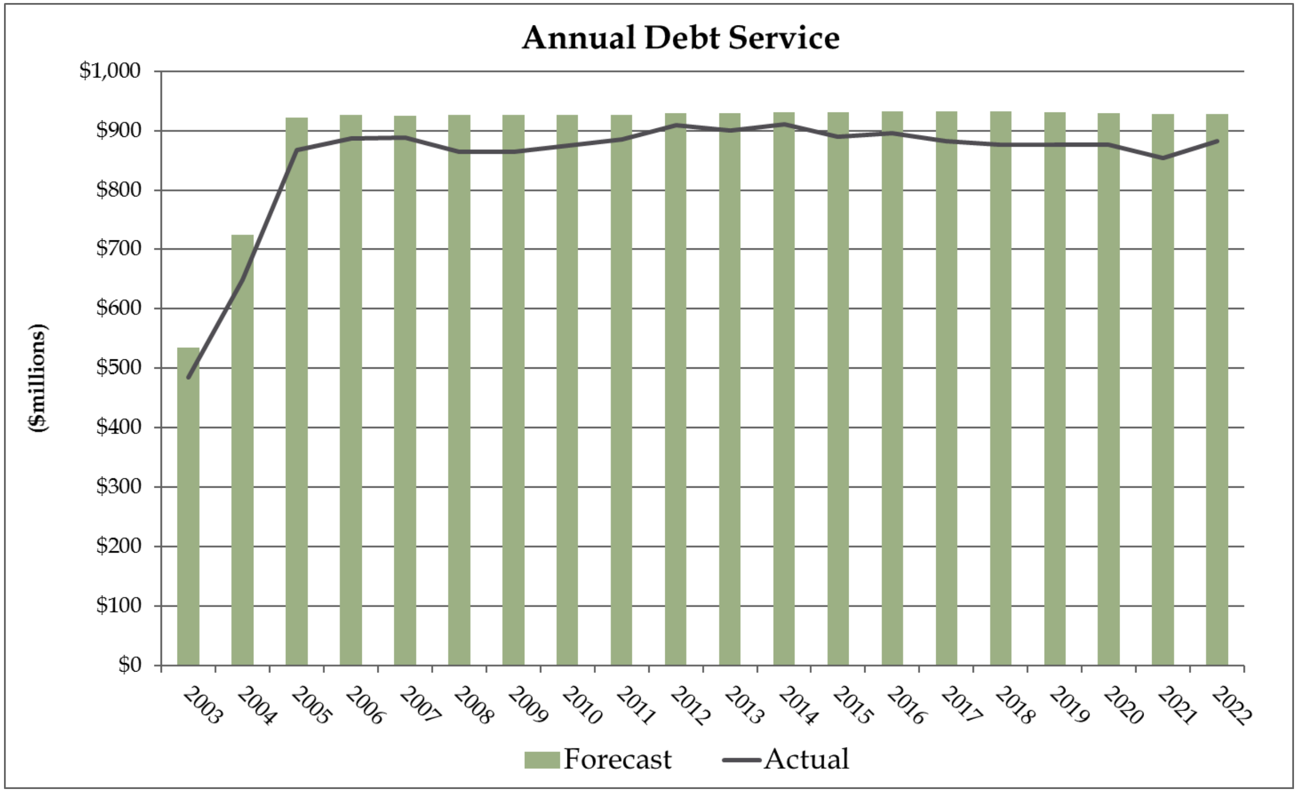
- January 17, 2001, Governor Davis issued an Emergency Proclamation authorizing DWR to purchase power on behalf of the State's Investor Owned Utility (IOU) customers.
- CERS Division was created and immediately began purchasing power 24/7 on the real time spot market to meet the energy needs of the IOU customers.
- February 1, 2001 AB 1X added Division 27 to the Water Code, authorizing DWR to enter into long-term energy contracts to purchase the electric requirements of the IOU customers not met by IOU retained generation assets.
- DWR entered into 58 long-term power agreements in 2001 and 2002 at an estimated cost of $42.5 billion. DWR also purchased the residual net short (spot market purchases) energy requirements on behalf of customers through December 31, 2002.
- In late 2002 DWR issued bonds totaling $11.3 billion to pay for electricity previously purchased by DWR and to set up Indenture Accounts to sustain the DWR Power Purchase Program. Additionally, Power and Bond Charges established under AB1X were allocated by the CPUC and collected from customers in the IOU service areas.
- Effective January 1, 2003 the long-term contracts were allocated among the IOUs who acted as CERS' limited agents for scheduling, dispatch and other administrative functions. CERS retained the financial and legal responsibility for the contracts.
- The majority of the power contracts expired in 2011. The final power contract ended in 2015. The bonds have a final maturity of 2022.

Current Responsibilities

- Manage Bond Portfolio of $3.9B (as of Jan-2018)
- Prepare Revenue Requirement and submit to CPUC annually
- Collect and validate IOU's remittances
- Prepare regulatory and financial reports
- Records management
- Ongoing litigation from power purchases
- Administrative support for budgeting, human resources, and personal services contracts
- Manage CERS transition to end-of-program

Amortization of Bonds

- In 2011 all remaining variable rate bonds were refunded and converted to fixed rate bonds.
- Favorable interest rate swap terminations (from 2003-2006) and refinancing of outstanding bonds lowered the overall total cost of debt service from the initial 2002 bond offering by $973 million, an average savings of $48 million/year.
- A potential opportunity to refund the 2010L bonds in the future may further reduce costs.



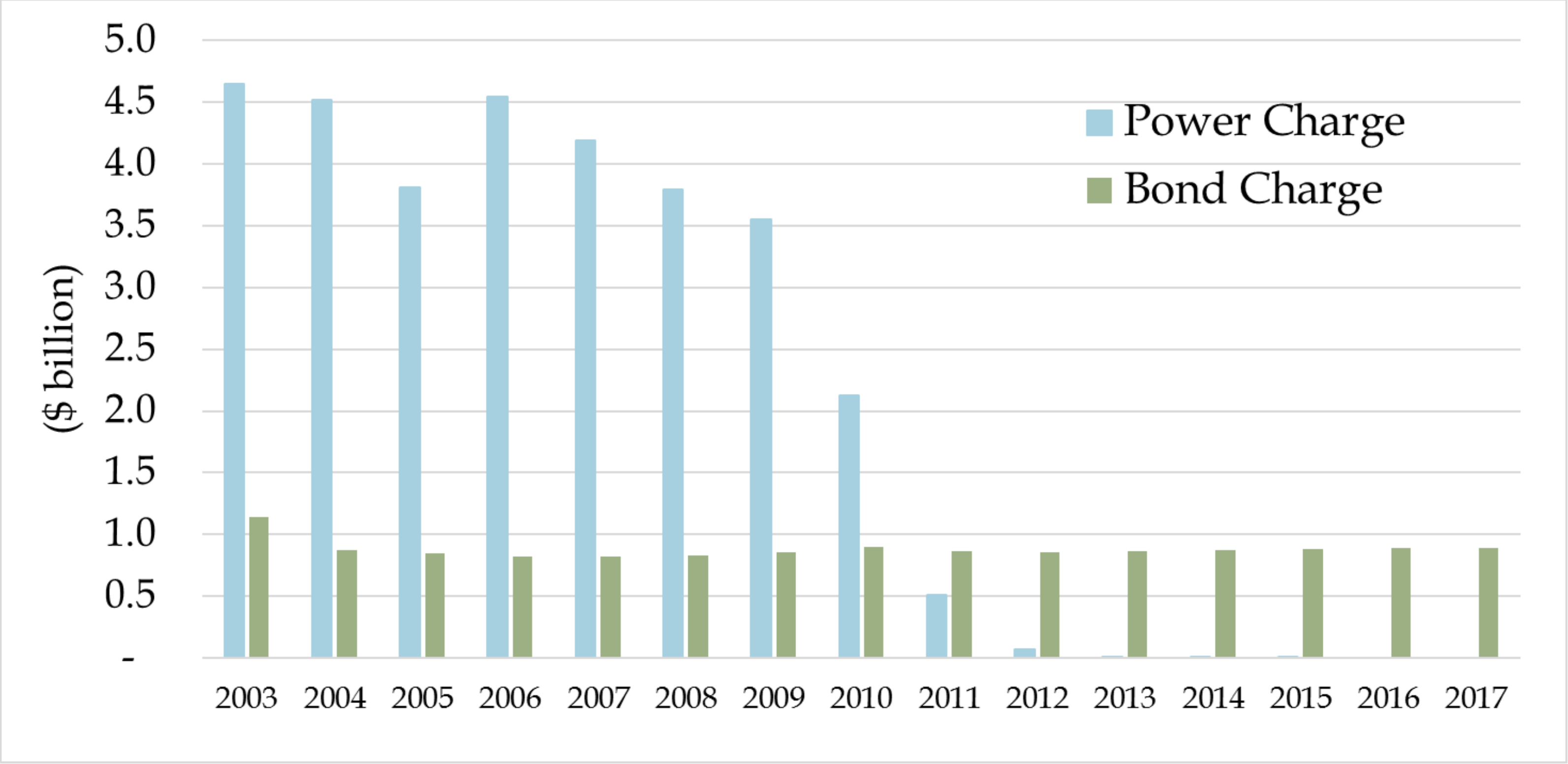
Note 1: Forecast based on the 2003 Supplemental Revenue Requirement. Debt service savings calculated in part result from actual interest rates being lower than the projected interest rates on the portion of debt that was issued as variable rate debt.
Note 2: Since all remaining bonds are fixed rate bonds the actual debt service for future years is known and fixed.

Revenue Requirement

- Pursuant to AB 1X, CERS transmits an annual Revenue Requirement to the CPUC to recover:
  - Bond costs
  - Power costs
- IOUs Provide:
  - Load forecasts which include assumption on economic growth, conservation, self-generation, Direct Access, Departing Load, load shapes, etc.
  - Billing and Collection Services – bill non-exempt customers and remit to CERS based on CPUC adopted power charge and bond charge rates.
- CERS:
  - Complies with its legal and regulatory requirements
  - Monitors actual expenditures vs. projected expenditures
  - Monitors actual cash flow and revenue sufficiency reporting

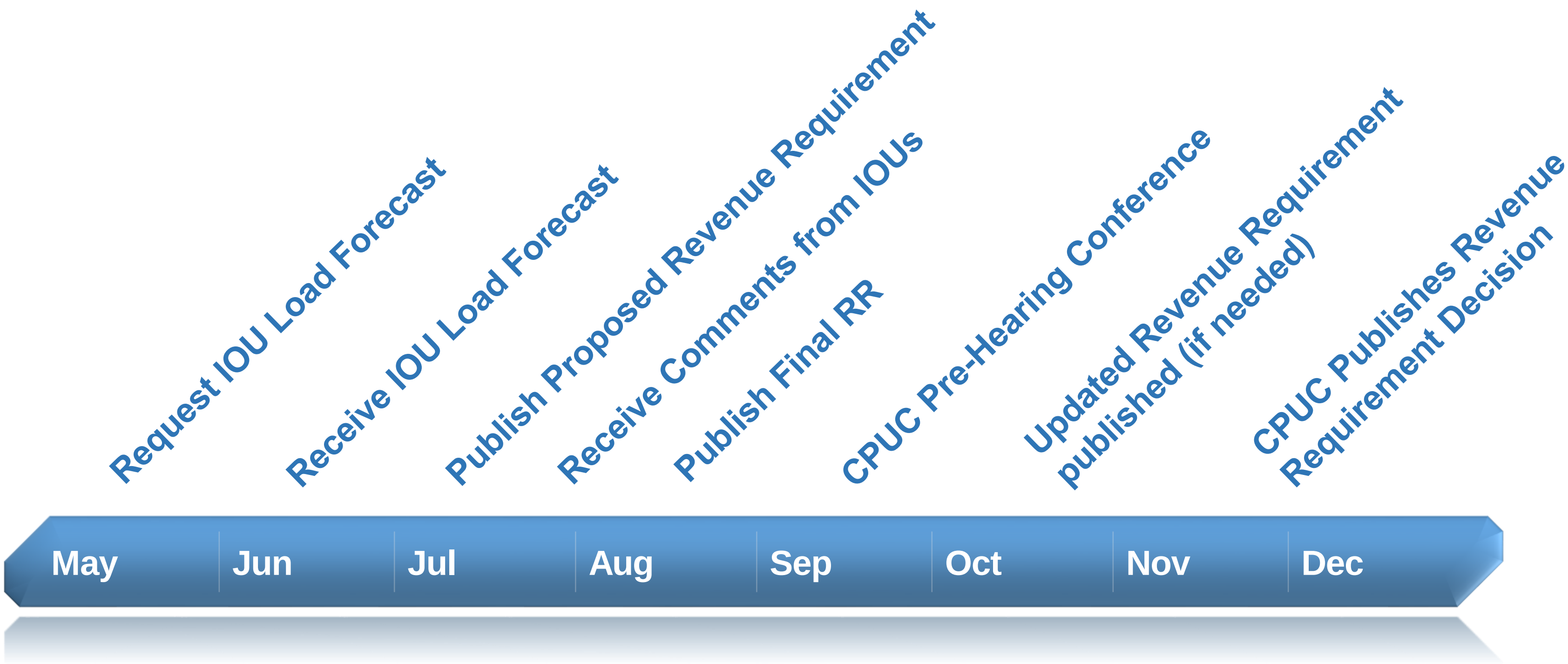
Revenue Requirement

- The annual Revenue Requirement is composed of power charges and bond charges to recover the Department’s costs.
- The last power contract expired in 2015 (resulting in no power charges in following years).



Revenue Requirement

Process and Timeline



IOU Remittance Process

- PG&E, SDG&E and SCE (IOUs) collect bond charges from ratepayers who are "non-exempt" from the DWR bond charge. "Exempt" ratepayers fall into two general categories:
  - Certain groups of ratepayers under special programs such as low income or high usage for in-home medical devices
  - Those ratepayers who had stopped receiving power from the IOUs before the energy crisis (Feb 1, 2001 per CPUC decision)
- Non-Exempt customers include Bundled customers, Direct Access (DA) customers, Community Choice Aggregation (CCA) customers and several other categories of Departing Load (DL) customers.
- The IOUs act as the collection agent for DWR's power and bond charges, remit the collected bond charges to CERS on a daily basis.
- Servicing Arrangements instituted between the IOUs and DWR, require the IOUs to provide load data to CERS to allow validation of the remittance amounts received.

Revenues and Expenses

Revenues

- Bond charge revenues from ratepayers
- Interest earnings
- Litigation settlements

Expenses

- Debt service on the bonds
- Administrative and general expenses

Ongoing Litigation from Power Purchases

- CERS is participating in several legal actions related to energy market manipulation in 2000 and 2001
- The California Parties* are seeking refunds from power producers. To date, approximately $7.5 billion has been recovered.
- Additional information is located at the California Attorney General's website https://oag.ca.gov/cfs/energy

***Includes DWR/CERS, PG&E, SCE, SDG&E, CA Attorney General, and the CPUC**

Reporting Requirements

- Financial Statements
  - Quarterly (Unaudited)
  - Annual (Audited)
  - Posted on CERS Web Page, the Electronic Municipal Market Access (EMMA) and circulated to Rating Agencies
- CPUC Report
  - Monthly update on Revenue Requirement
  - Monthly update on Utility Specific Balancing Accounts
- EMMA
  - Annual disclosure
  - Event disclosure